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TO RUEHC/SECSTATE WASHDC PRIORITY 9537
INFO RUEHUJA/AMEMBASSY ABUJA 0375
RUEHKI/AMEMBASSY KINSHASA 1352
RUEHLI/AMEMBASSY LISBON 0650
RUEHLO/AMEMBASSY LONDON 0329
RUEHLU/AMEMBASSY LUANDA 0941
RUEHNJ/AMEMBASSY NDJAMENA 0415
RUEHYD/AMEMBASSY YAOUNDE 0754
RUEHOS/AMCONSUL LAGOS 0652
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SUBJECT: WHERE'S STP'S OIL MONEY?

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Classified By: Ambassador Barrie Walkley for reasons 1.4 b and d

WHERE'S STP'S OIL MONEY?

11. (U) As indicated in reftel, the signing bonuses for Blocks 2, 3 and 4 of the Sao Tome and Principe/Nigeria Joint Development Zone totaled \$201 million, with STP's share being \$80.4 million and Nigeria's \$120.6 million. However, because of a disastrous deal STP signed with Environmental Remediation Holdings Company (ERHC) in the 1990s, STP qualifies for only \$28.6 million of its share (with ERHC getting \$51.8 million). The signing bonuses have been paid by the oil companies to the Joint Development Agency (the entity which manages the JDZ).

12. (C) It is unclear where the JDA (which is based in Abuja and dominated by Nigeria) has deposited the money. This in itself is worrying because of last year's precedent: The signing bonuses for Block 1 were deposited for months in an off-shore subsidiary of a Nigerian bank, with the funds apparently disappearing when the bank went belly-up. (STP's share fortunately had by then been transferred to STP's account at the Federal Reserve in Washington.)

13. (C) Nigeria and STP are currently in a stand-off over STP's \$28.6 million share of the Block 2,3 and 4 signing bonuses. STP owes Nigeria approximately \$20 million in loans, which Nigeria is insisting on deducting from the signing bonus money. STP is in desperate need of capital and wants Nigeria to postpone payment of the loans and release the entire \$28.6 million. STP President Fradique de Menezes told the Ambassador that "Nigeria has STP over a barrel; we've no leverage at all."

WHERE'S STP'S OIL?

14. (C) On January 19, Chevron STP's Country Manager, Tim Parsons, met with de Menezes to repeat the information Chevron had released previously: Chevron's drilling in Block 1 had revealed reserves that were disappointing and that did not justify a "stand-alone" development. Parsons also told de Menezes that Chevron will wait to see what the operators of Blocks 2, 3 and 4 discover before deciding on future plans. These operators are not expected to conduct any drilling

before 2008. Chevron's activities in STP will thus essentially be dormant until at least 2008.

¶5. (C) Asked about a widespread rumor that a smaller oil company could cut costs and successfully/commercially exploit the Chevron discovery, Parsons said that the rumor had been started by the JDA itself and has no basis in fact. Parsons insisted that there is no way the current reserves discovered by Chevron could be developed "stand alone" -- unless oil reaches a sustained \$80-100 dollar per barrel price.

WALKLEY